

Message Text

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INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 EB-11 SCEM-02 COME-00 TRSE-00 INT-08 SIL-01

LAB-06 DRC-01 ACDA-19 AEC-11 SCI-06 AGR-20 /199 W

----- 125189

P R 311736Z DEC 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 5757

INFO AMEMBASSY MOSCOW

USMISSION NATO

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS UNN

AMEMBASSY TOKYO

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E.O. 11652: GDS

TAGS: PFOR, FR, US

SUBJECT: FRENCH POLITICAL AND ECONOMIC TRENDS

REFS: A) STOESEL DECEMBER 4 LETTER, B) PARIS 26352, (NOTAL)

C) PARIS 30642 (NOTAL)

1. SUMMARY. WHILE WE FORESEE NO BASIC CHANGES IN THE TRENDS PROJECTED IN REFTELS, RECENT EVENTS POINT TO AN INCREASING PREOCCUPATION BY THE FRENCH WITH DOMESTIC AND ECONOMIC PROBLEMS IN 1974. ECONOMIC DISLOCATIONS THREATEN TO EXACERBATE AN ALREADY SHAKY DOMESTIC SITUATION, IMPEDE EC COHESIVENESS, CIRCUMSCRIBE FOREIGN POLICY AND HAMSTRING TRADE AND MONETARY NEGOTIATIONS. THE FRENCH GOVERNMENT IS THUS FACED WITH SOME FORMIDABLE CHALLENGES, GOF PRIORITY EMPHASIS WILL BE BEING PLACED ON BLUNTING THE "OIL WEAPON" IN SUCH A WAY THAT EC COOPERATION DOES NOT SUFFER AND FRANCE MAINTAINS ITS INDEPENDENT ROLE IN WORLD AFFAIRS. END SUMMARY.

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2. THE PRESENT FRENCH FOCUS ON INTERNAL AND ECONOMIC AFFAIRS WAS SHOWN BY PRESIDENT POMPIDOU'S RADIO-TV INTERVIEW OF DECEMBER 20, WHICH BARELY TOUCHED ON FOREIGN POLICY. NOTING THAT THE FRENCH PEOPLE WERE WAKING UP FROM "TOO BEAUTIFUL A DREAM", THE

FRENCH PRESIDENT FORECAST 1974 AS "A DIFFERENT YEAR." OF PRIMARY CONCERN, OF COURSE, ARE THE TWIN THREATS OF INCREASED INFLATION AND UNEMPLOYMENT. PRIOR TO THE ENERGY CRISIS, THE GOF WAS REASONABLY CONFIDENT THAT THESE PROBLEMS COULD BE CONTAINED WITHOUT RECOURSE TO MORE GOVERNMENT CONTROLS, BUT THEIR MAGNIFICATION BY THE ENERGY CRISIS NOW RAISES THE SPECTOR OF AN INCOMES POLICY. GOVERNMENT ECONOMIC PLANNERS AGREE THAT THE EFFECTS OF THE OIL SHORTAGE AND PRICE INCREASES COULD BE SEVERE. THEY ESTIMATE THAT SHOULD OIL SUPPLIES BE CUT MORE THAN TEN PERCENT IN 1974 AS COMPARED WITH 1973, THERE WOULD BE A SEVERE LOSS OF ECONOMIC ACTIVITY. THE SIMPLE PASSING ON OF OIL PRICE INCREASES WILL ADD AT LEAST THREE PERCENT TO THE RETAIL PRICE INDEX, WHICH EVEN EARLIER HAD BEEN EXPECTED TO MAINTAIN ITS NINE PERCENT ANNUAL RATE OF INCREASE IN 1974. PROSPECTS ARE THAT INFLATION WILL ACCELERATE BY SOME 10-15 PERCENT AND THAT THE FIVE PERCENT REAL GROWTH FORECASTS FOR 1974 WILL PROBABLY NOT BE REACHED.

3. CONTROLS ON WAGES AND ADDITIONAL CONTROLS ON PRICES--SUBJECTS WHICH RECEIVED CONSIDERABLE ATTENTION DURING THE LAST MONTHS OF 1973--MAY BECOME THE CENTRAL ECONOMIC ISSUES IN THE WEEKS AHEAD. IF THE GOVERNMENT IS FORCED TO INTERVENE VIGOROUSLY IN THE MANAGEMENT OF THE ECONOMY, THIS COULD ENGENDER SERIOUS LABOR UNREST. ALTHOUGH THE GENERAL STRIKES OF DECEMBER 6 WAS LARGELY A FIZZLE, THE DOMINANT LEFTIST TRADE UNIONS HAVE BECOME INCREASINGLY ACTIVE IN CHALLENGING THE GOVERNMENT, AND A SERIOUS RISE IN UNEMPLOYMENT CAUSED BY LAYOFFS IN ENERGY-RELATED INDUSTRIES COULD DRASTICALLY INCREASE POLITICAL AND SOCIAL TENSIONS.

4. THE GOVERNMENT HAS ALSO BEEN HIT BY SCANDAL, WITNESS THE RECENT UNSUCCESSFUL ATTEMPT TO INSTALL LISTENING DEVICES IN THE OFFICES OF THE INFLUENTIAL SATIRICAL WEEKLY, LE CANARD EN-CHANE. THE FRENCH PRESS HAS CALLED FOR MINISTERIAL RESIGNATIONS, INCLUDING THAT OF PRIME MINISTER MESSMER, AND ALTHOUGH PRESIDENT POMPIDOU DEFENDED HIM VIGOROUSLY IN HIS DECEMBER 20 INTERVIEW, SOME GOVERNMENT SHAKE-UP IS POSSIBLE. RECURRING
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QUESTIONS CONCERNING PRESIDENT POMPIDOU'S HEALTH HAVE LED HIS POSSIBLE SUCCESSORS, BOTH AMONG THE GAULLISTS (UDR) AND WITHIN THE OPPOSITION PARTIES, TO RENEWED JOCKEYING FOR POSITION. SOCIALIST PARTY LEADER MITTERRAND HAS BEGAIN TO ASSERT HIMSELF AS A VIABLE CONTENDER FOR THE PRESIDENCY. HIS PLANNED TRIP TO MOSCOW IN FEBRUARY, ONE OF A SERIES OF FOREIGN VISITS TO BUILD UP HIS PRESTIGE, SEEMS CALCULATED TO SHOW THAT POMPIDOU, WHO IS ALSO DUE IN MOSCOW AT ABOUT THE SAME TIME, DOES NOT HAVE A MONOPOLY ON DEALING WITH THE SOVIETS. IN SHORT, FRANCE'S INTERNAL PROBLEMS ARE SERIOUS, AND THE GOVERNMENT, LED BY A PRESIDENT WITH A PREDILECTION FOR VACILLATION, SEEMS TO BE REACTING TO DOMESTIC EVENTS RATHER THAN INITIATING EFFECTIVE SOLUTIONS.

5. THE EFFECT OF ALL OF THIS ON FRENCH FOREIGN POLICY IS UNCERTAIN. DOMESTIC PROBLEMS MAY LIMIT GOF ACTIVITY ON THE INTERNATIONAL SCENE IN 1974. HOWEVER, SOME ISSUES, SUCH AS THAT OF THE MIDDLE EAST AND OIL, HAVE DIRECT DOMESTIC IMPLICATONS AND WILL HAVE TO BE DDRESED ON AN URGENT BASIS. ALSO, THERE IS AN HISTORICAL TENDENCY IN FRENCH POLITICS TO SEEK EXTERNAL SUCCESSES DURING TIMES OF INTERNAL TROUBLE.

6. IN ANY CASE, FRENCH FOREIGN POLICY WILL UNDOUBTEDLY CONTINUE TO BE MOTIVATED BY NATIONALISM, INDEPENDENCE OF ACTION, PURSUIT OF INFLUENCE AND CONCERN OVER DEFENSE. THE PRIMARY FOCUS OF THE FRENCH IS LIKELY TO REMAIN ON THE EC, WHERE THEY BELIEVE THEIR VOICE CAN BE DOMINANT, AND WHICH THEY HOPE TO USE TO INFLUENCE WORLD EVENTS TO A LARGER EXTENT THAN THEIR NATIONAL POSITION WOULD OTHERWISE ALLOW. THEY WILL THEREFORE CONTINUE TO RESIST PRIOR US-EC CONSULTATIONS ON COMMUNITY DECISIONS. THEY VIEW THIS AS AN ENCROACHMENT ON WHAT THEY REGARD AS AN INTERNAL AFFAIR OF THE EC. THE OUTLOOK IS THUS FOR CONTINUING FRENCH INTRANSIGANCE IN NEGOTIATIONS ON THE US-EC DECLARATION.

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USIA-15 EB-11 SCEM-02 COME-00 TRSE-00 INT-08 SIL-01

LAB-06 DRC-01 ACDA-19 AEC-11 SCI-06 AGR-20 /199 W

----- 125308

P R 311536Z DEC 73

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7. IN CONTRAST, THE FRENCH LOOK ON NATO AS THE VEHICLE ENSURING OUR CONTINUED MILITARY ENGAGEMENT IN EUROPE, AND WHILE THEY HAVE A NATURAL AVERSION TO THE IMPLICATIONS OF WHAT THEY REGARD AS OUR CONCEPT OF ATLANTIC PARTNERSHIP, THEY REMAIN COMMITTED TO THE ALLIANCE BECAUSE OF DEFENSE NEEDS. IF

THEY CONCLUDE THAT CONCESSIONS TO US ARE NECESSARY, THEY WILL SEEK TO MAKE THEM IN THE FRAMEWORK OF THE ATLANTIC DECLARATION, PRESERVING THEIR FREEDOM OF ACTION WITHIN THE EC. AT THE SAME TIME, IT IS LIKELY THAT THE FRENCH WILL CONTINUE CASTING AROUND FOR IDEAS ON HOW INDEPENDENT EUROPEAN DEFENSE COOPERATION MIGHT BE ORGANIZED, BOTH BECAUSE THEY REMAIN DOUBTFUL OF OUR COMMITMENT TO EUROPE OVER THE LONG TERM AND BECAUSE THEY BELIEVE A PURELY EUROPEAN SCHEME WOULD AUGMENT THEIR POWER AND PRESTIGE. FRENCH MILITARY AND ECONOMIC INTEREST IN THE EUROGROUP COULD INCLINE THE POLITICAL LEADERSHIP TO REASSESS THE POSSIBILITY OF SOME AFFILIATION WITH IT, DESPITE ITS NATO CONNECTION.

8. THE BASIC THRUST OF FRENCH POLICY IS ALSO DESIGNED TO
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MEET CONCERNS OVER SOVIET INTENTIONS AND THE FUTURE OF GERMANY. ALTHOUGH THEY ARE THEMSELVES THE SELF-PROCLAIMED APOSTLES OF DETENTE, THE FRENCH ARE CLEARLY WORRIED OVER THE DIRECTION IN WHICH IT IS HEADING. JOBERT'S PUBLIC EXPRESSIONS OF CONCERN OVER A US-SOVIET CONDOMINIUM AND THE MORTGAGING OF EUROPEAN SECURITY REFLECT A FEAR THAT THE COMBINATION OF SOVIET MILITARY STRENGTH AND PEACE INITIATIVES COULD NOT ONLY ERODE THE CREDIBILITY OF OUR WILLINGNESS TO RISK NUCLEAR WAR OVER EUROPE, BUT COULD AS WELL ABET NEUTRALIST TENDENCIES, ESPECIALLY IN GERMANY. THE GERMAN QUESTION WEIGHS HEAVILY ON THE MINDS OF THE FRENCH. A NEUTRALIST AND REUNITED GERMANY WOULD BE A DISASTER FOR THEM, AND THEY HAVE FOLLOWED WITH EXTREME CARE ANY EVIDENCE OF SENTIMENT IN THIS DIRECTION. LARGELY BECAUSE OF THESE APPREHENSIONS, THE FRENCH CONTINUE TO OPPOSE MBFR AND HAVE BEGUN URGING THE POLITICAL DEVELOPMENT OF THE EC WITH GERMANY FIRMLY ATTACHED.

9. FRENCH WARINESS OVER SOVIET INTENTIONS, INCREASINGLY EVIDENT SINCE JOBERT TOOK OVER AT THE QUAI, HAS LED TO A RECENT COOLING OF FRENCH-SOVIET RELATIONS. THE FRENCH HAVE NOT HESITATED TO SPEAK OPENLY OF THE SOVIET THREAT, BOTH BECAUSE IT IS A DIRECT WORRY, AND BECAUSE IT IS A CONVENIENT MEANS OF STIMULATING COHESION WITHIN THE EC. HOWEVER, FRENCH POLICY REMAINS ONE OF BALANCE, AND THE SOVIET CONNECTION IS IMPORTANT IN FRANCE'S DESIRE FOR AN INDEPENDENT ROLE ON THE WORLD STAGE. THE FRENCH HAVE USED THEIR "REALISTIC" POSTURE IN THE CSCE AS A MEANS OF APPEASING SOVIET CONCERN OVER FRENCH EC POLICY, WHILE HOPING THAT THEIR "BASKET-ONE" DRAFT PRINCIPLES WILL TAKE SOME OF THE STING OUT OF THE BREZHNEV DOCTRINE AND THAT A GOOD AGREEMENT ON "HUMAN CONTACTS" WILL EVENTUALLY HELP MODERATE SOVIET BEHAVIOR. WHEN POMPIDOU GOES TO THE USSR, HE WILL DOUBTLESS TRY TO KEEP DISAGREEMENTS WITH THE SOVIETS WITHIN MANAGEABLE BOUNDS.

10. POMPIDOU'S OTHER MAJOR FOREIGN TRIP DURING THE FIRST HALF OF 1974 WILL BE TO JAPAN IN APRIL. WHILE THERE, HE WILL UNDOUBTEDLY

SEEK TO PROJECT FRENCH GLOBAL INTERESTS AS HE DID DURING HIS CHINA VISIT LAST FALL, KEEPING A CAREFUL EYE ON THE DOMESTIC IMPACT IN FRANCE. HE CAN BE EXPECTED TO SOLICIT CLOSER BILATERAL JAPANESE COOPERATION WITH THE EC WHILE CONTINUING TO OPPOSE A TRILATERAL JAPANESE RELATIONSHIP WITH THE US-EC. HE WILL ALSO
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SOUND OUT THE JAPANESE ON ENERGY POLICY, DEPENDING ON THE STATE OF PLAY AT THE TIME OF HIS VISIT.

11. IN THE MIDDLE EAST, FRANCE CAN BE EXPECTED TO CONTINUE SEEKING AN ACTIVE ROLE, BOTH INDEPENDENTLY AND, WHERE POSSIBLE, WITH THE COOPERATION OF ITS EC PARTNERS. WHILE THE FRENCH HAVE YET TO TAKE AN OFFICIAL POSITION ON THE SECRETARY'S ENERGY ACTION GROUP PROPOSAL, GOF TECHNICAL-LEVEL OFFICIALS, IN PRELIMINARY SOUNDINGS, HAVE SHOWN A MARKED LACK OF ENTHUSIASM. THE DECISION WILL BE A DIFFICULT ONE FOR THE FRENCH BECAUSE OF THEIR PREFERENCE FOR DEALING WITH THE OIL PROBLEM THROUGH PREFERENTIAL RELATIONS WITH THE ARAB STATES.

12. THE MOST SERIOUS PROBLEM THREATENING FRANCE'S FOREIGN ECONOMIC POSITION IS THE EXPECTED BALANCE OF PAYMENTS LOSSES AS A RESULT OF THE LATEST PETROLEUM PRICE INCREASES. THE ANNOUNCED PRICE INCREASES WILL CAUSE A LARGE DEFICIT IN FRANCE'S CURRENT ACCOUNT, THUS CONFRONTING THE GOF WITH PAINFUL PROBLEMS AND OPTIONS, TEMPERED ONLY BY THE DUBIOUS CONSOLATION THAT MOST OF THE REST OF THE INDUSTRIALIZED WORLD WILL BE IN THE SAME SITUATION.

13. IN SPITE OF THE PRESENT PERIOD OF UNCERTAINTY, THE FRENCH APPEAR TO BE PREPARED TO PUSH AHEAD ON TRADE TALKS. HOWEVER, IF THE ENERGY CRISIS SHOULD PLUNGE EUROPE INTO A RECESSION, THIS ATTITUDE COULD CHANGE; PRESSURE FROM FRENCH FARMERS, INDUSTRIAL WORKERS AND BUSINESSMEN, AFFECTED BY WEAKER DEMAND FOR FRENCH EXPORTS, COULD SPUR THE FRENCH TO RESIST TRADE LIBERALIZATION. EFFORTS TO PROTECT EC MARKET AGAINST OUTSIDE COMPETITION COULD ALSO AFFECT OTHER VITAL US INTERESTS, SUCH AS SOYBEAN EXPORTS, EC-BASED US FIRMS AND SETTLEMENT OF OUR ARTICLE 24:6 CLAIMS.

14. ON THE MONETARY FRONT, FRANCE, ALONG WITH ITS EC PARTNERS, CONTINUE TO INSIST ON STRINGENT CONVERTIBILITY ARRANGEMENTS AS THE MOST IMPORTANT ELEMENT OF MONETARY REFORM. RECENTLY, PRESIDENT POMPIDOU AND OTHERS HAVE SOFTENED THE TONE OF THEIR CLASSICAL HARD-LINE POSITION ON GOLD, BUT THEY HAVE CAREFULLY MAINTAINED THAT IT SHOULD CONTINUE TO PLAY AN IMPORTANT ROLE AS A MONETARY RESERVE AND MEANS OF SETTLEMENT AMONG CENTRAL BANKS. THEY WILL DOUBTLESS LOBBY HARD FOR THIS POSITION, CITING THE NEED TO "UNFREEZE" EUROPEAN GOLD STOCKS BY ASSIGNING
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THEM A MARKET-DERIVED VALUE FOR USE IN INTRA-EUROPEAN SETTLEMENTS. ON THE TIMETABLE FOR NEGOTIATIONS, THE OIL CRISIS HAS LED THE FRENCH TO STATE PUBLICLY THAT IT IS NO LONGER FEASIBLE OR DESIRABLE TO AIM FOR OVER-ALL AGREEMENT ON REFORM PRINCIPLES BY THE JULY 31, 1974 TARGET SET IN NAIROBI LAST SEPTEMBER.

15. THUS, AS THE YEAR DRAWS TO A CLOSE, THE BASIC TRENDS IN FRANCE ARE STRONGLY CONDITIONED BY THE UNCERTAIN ENERGY SITUATION. NO LONGER SOOTHED BY THE HOPE THAT FRANCE, AS A "FRIENDLY" POWER, WOULD BE SPARED THE HARDSHIP OF THE PETROLEUM SHORTAGE, THE FRENCH HAVE BEEN TOLD TO BRACE THEMSELVES FOR "A DIFFICULT YEAR."

16. ASSUME DEPT. WILL ELICIT AMBASSADOR IRWIN'S COMMENTS ON THIS APPRAISAL WHEN HE ARRIVES IN WASHINGTON IN MID-JANUARY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN RELATIONS, PETROLEUM, SUPPLIES, UNEMPLOYMENT, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PARIS33096
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731256/abqcegmptel
Line Count: 289
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: A) STOESEL DECEMBER 4 LETTER, B) PARIS 26352, (NOTAL) C) PARIS 30642 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 24 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24-Aug-2001 by elyme>; APPROVED <16-Oct-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH POLITICAL AND ECONOMIC TRENDS
TAGS: PFOR, FR, US
To: STATE INFO MOSCOW
NATO
BRUSSELS
EC BRUSSELS UNN
TOKYO
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

